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STATE OF IDAHO – SINGLE AUDIT REPORT 90-DAY FOLLOW-UP FISCAL YEAR 2013

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On March 31, 2014, the Legislative Services Office released the federally required *Single Audit Report* for fiscal year 2013. State agencies with findings in this report were contacted between July and October 2014, and the following describes how each agency has responded to the recommendations.

BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE

Finding 2013-201 – Federal financial reports for the Vocational Rehabilitation Grants to States are not supported by the Commission's accounting records.

We recommended that the Commission develop a process to identify and utilize accurate and reliable financial records that are reconciled to the statewide accounting system when preparing federal reports. We further recommended that the Commission strengthen internal controls over the federal reporting process to ensure compliance with federal reporting requirements.

AUDIT FOLLOW-UP

The Commission contacted their federal liaison at the Rehabilitation Services Administration for additional guidance regarding reporting and related compliance requirements. At the direction of their federal liaison, the Commission has implemented changes to the SF-425 federal reporting process starting with reports to be audited during the fiscal year 2014 audit.

Testing will be performed during the fiscal year 2014 Single Audit to more fully determine if these changes are effective.

STATUS – OPEN

Finding 2013-202 – Internal controls designed to ensure compliance with federal allowable cost requirements and detect or prevent misappropriation of assets are not adequately designed or monitored.

We recommended that the Commission implement internal controls to properly monitor and review all purchase card transactions to ensure compliance with federal allowable cost requirements.

AUDIT FOLLOW-UP

The Commission has taken steps to improve internal controls over all purchase card transactions. Policies require that all purchase card transactions are reviewed and approved by a supervisor regardless of the purchase amount.

Testing will be performed during the fiscal year 2014 Single Audit to more fully determine if these changes are effective.

STATUS – OPEN

Finding 2013-203 – Internal controls over federal procurement, suspension, and debarment compliance are not adequately designed or implemented.

We recommended that the Commission implement internal controls to ensure compliance with federal procurement, suspension, and debarment requirements.

AUDIT FOLLOW-UP

The Commission has taken steps to improve internal controls over federal procurement, suspension, and debarment requirements. Vendors will be reviewed when established in STARS. Vendors will also be reviewed annually if expenditures exceed an appropriate amount in the previous fiscal year. The Commission will complete and retain documentation of the vendors reviewed for suspension and debarment compliance.

Testing will be performed during the fiscal year 2014 Single Audit to more fully determine if these changes are effective.

STATUS – OPEN

ENVIRONMENTAL QUALITY, DEPARTMENT OF

Finding 2013-204 – Loan principal forgiveness amounts are not supported by the accounting records.

We recommended that the Department design and implement internal controls to ensure accounting records adequately identify grant activity in accordance with federal laws, regulations, and program requirements including loan principal forgiveness in the Drinking Water State Revolving Fund (DWSRF) program.

AUDIT FOLLOW-UP

The Department has developed and implemented new procedures to ensure that programmatic requirements are met and accounted for properly. The new procedures include communication between fiscal and program staff, the creation of loan forgiveness tracking spreadsheets, enhancements to the loan system, and a joint review of loan forgiveness status before the preparation of each final financial report.

We observed the enhancements to the loan system, reviewed the new loan forgiveness tracking spreadsheets, and reviewed the electronic communications between fiscal staff and loan program staff documenting a joint review of loan forgiveness status. The new procedures have strengthened internal controls and provide for adequate accounting records of loan principal forgiveness.

STATUS – CLOSED

Finding 2013-205 – The review and approval of timely Federal Funding Accountability and Transparency Act (FFATA) reporting was not properly documented.

We recommended that the Department implement internal controls to properly document the review and approval of timely FFATA reporting.

AUDIT FOLLOW-UP

The Department took immediate measures to strengthen and document internal controls over the FFATA reporting process. The Department prints a PDF of the FFATA report when data is entered into the federal reporting system. The report indicates both the loan obligation date and the report month, which enables verification of compliance with FFATA reporting requirements. In addition, a supervisor documents a review of each report, and the reports are stored in the Department's TRIM system.

We reviewed current FFATA reports and verified the implementation of the internal controls which include documenting the review and timing of the reports.

STATUS – CLOSED

FISH AND GAME, DEPARTMENT OF

Finding 2013-206 – \$23,670 of vendor payments related to the Bonneville Power Administration grant were incurred and paid outside the Period of Availability for federal funds.

We recommended that the Department strengthen the documentation and implementation of internal controls over federal grant expenditures to ensure compliance with the period of availability.

AUDIT FOLLOW-UP

The Department has performed a risk assessment and determined that expenditures charged to a federal program near the beginning and end of the contract period are at greater risk of being coded to a contract outside of its period of availability. Based on this risk assessment, the Department has implemented additional reviews of expenditures charged to federal contracts prior to submitting a request for reimbursement to the grantor. The reviews include examining the invoice description field for the inclusion of dates outside of the contract period and reviewing the detail of invoices and supporting documentation to further determine the appropriateness of the contract being charged. Adjustments for errors found are made prior to submitting their request to the grantor for reimbursement and prior to closing the contract.

We were provided with six examples of errors that had been identified and corrected since the completion of the audit period. Using one of the examples provided, we walked through their new process with staff.

The Department has worked with Bonneville Power Administration and has resolved the out-of-period costs. They have re-submitted paperwork to adjust the erroneous charges between contracts, where possible. The unresolved amount of \$2,056 has been submitted to Bonneville Power Administration.

STATUS – CLOSED

HEALTH AND WELFARE, DEPARTMENT OF

Finding 2013-207 – Multiple federal programs incurred expenditures prior to the period of availability due to weaknesses in the design of internal controls.

We recommended that the Department implement internal control procedures to ensure that grant costs are not incurred prior to the period of availability for the grant. We further recommended that the Department contact the federal grantors to resolve the questioned costs.

AUDIT FOLLOW-UP

The Department disagrees with this finding and, accordingly, has not made the recommended changes. We continue to affirm the finding, and the issue is currently under review with the federal grantor.

STATUS – OPEN

Finding 2013-208 – Federal funds of \$96,781 were used inappropriately to meet state matching requirements for the Supplemental Nutrition Assistance Program (SNAP).

We recommended that the Department implement internal control procedures to ensure that only allowable sources are used to meet the matching requirements. We further recommended that the Department contact the federal grantor to resolve the questioned costs.

AUDIT FOLLOW-UP

The Department disagrees with this finding and, accordingly, has not made the recommended changes. We continue to affirm the finding, and the issue is currently under review with the federal grantor.

STATUS – OPEN

Finding 2013-209 – \$2.5 million in federal unobligated balances carried forward from fiscal year 2008 were inappropriately expended for non-assistance in the Temporary Assistance for Needy Families (TANF) program.

We recommended that the Department implement internal control procedures to ensure that appropriate grant costs are charged to the correct period of availability. We further recommended the Department contact the federal grantor to resolve the questioned costs.

AUDIT FOLLOW-UP

Subsequent to the issuance of the *Single Audit Report*, the Department requested clarification on the use of carryover funds from the federal grantor on April 4, 2014. The federal grantor responded to the Department's request stating that the rule change was applicable to all funds carried over into federal fiscal year 2009, thus supporting that the Department was allowed to spend these funds on salary and other indirect costs. As a result, this finding is now satisfactorily closed.

STATUS – CLOSED

Finding 2013-210 – Contractor reimbursements for likely costs of \$37,572 incurred by the Temporary Assistance for Needy Families (TANF) program were made without adequate supporting documentation.

We recommended that the Department strengthen monitoring of internal controls to ensure the controls are operating as designed and expenditures comply with federal program requirements. We further recommended that the Department contact the federal grantor to resolve the questioned costs.

AUDIT FOLLOW-UP

The Department has revised and clarified their policies and procedures related to checks used by the contractor when vendors are unable or unwilling to accept a voucher. The Department's policies now require that the contractor have a written estimate or invoice prior to issuing a check to a vendor. The Department has also enhanced their monitoring procedures to specifically include reviewing the contractor's compliance with this policy. We reviewed the most recent monitoring documentation and determined that the procedures were adequately performed. In addition, we reviewed five transactions and noted that the required documentation was present, and we were able to determine the costs were allowable. While the enhanced procedures may be adequate to prevent or detect and timely correct future instances of noncompliance, because this is a repeat issue, we will perform additional testing during the 2014 *Single Audit Report* fieldwork to determine that support documentation for expenditures and monitoring procedures are consistently completed.

STATUS – OPEN

Finding 2013-211 – The income eligibility verification system was not used in accordance with federal guidelines for the Temporary Assistance for Needy Families (TANF) program.

We recommended that the Department implement procedures to verify wage and unemployment compensation information as required by the federal grantor. We further recommended that the Department implement control procedures to ensure that policies and procedures implemented comply with federal regulations.

AUDIT FOLLOW-UP

The Department requested a waiver from the federal grantor who indicated that the waivers discussed in regulations revolve around alternative reporting methods but do not allow for extended time frames for reporting. The federal grantor informed the Department that if there is an alternative method of reporting they would reevaluate when that information was submitted. Since being denied a waiver, the Department has not instituted policies and procedures to ensure the required information is obtained at three-month intervals as required.

STATUS – OPEN

Finding 2013-212 – Costs related to child support receipting services were not properly allocated resulting in \$11,679 of costs benefitting the Child Support Enforcement grant being charged to the Temporary Assistance for Needy Families (TANF) grant.

We recommended that the Department strengthen internal control procedures to ensure that Position Control Account (PCA) numbers are properly used and only allowable costs are charged to federal programs. We further recommended that the Department contact the federal grantor to resolve the questioned costs.

AUDIT FOLLOW-UP

The Department implemented an additional review to ensure the correct PCAs are utilized as well as a quarterly budget to actual comparison of the PCAs involved.

We reviewed some transactions to evaluate the new procedures and identified a transaction from July 2013 that was incorrectly allocated between PCAs. This transaction occurred prior to the implementation date of the additional review procedures; however, the budget to actual comparison should have detected the error and allowed management to make the necessary adjustments. As this error was not detected and corrected, the finding will remain open and additional procedures will be completed during the 2014 *Single Audit Report* fieldwork.

STATUS – OPEN

Finding 2013-213 – Internal controls over financial reporting for the Temporary Assistance for Needy Families (TANF) grant and the Child Care Cluster were not adequately designed to prevent inaccuracies.

We recommended that the Department strengthen internal controls over the reporting process to ensure that reports are completed accurately and in accordance with federal regulations.

AUDIT FOLLOW-UP

The Department disagrees with this finding and, accordingly, has not made the recommended changes. We continue to affirm the finding, and the issue is currently under review with the federal grantor.

STATUS – OPEN

Finding 2013-214 – Federal special reports for the Low-Income Home Energy Assistance Program (LIHEAP) lacked support.

We recommended that the Department strengthen internal controls over records retention processes to ensure that supporting documentation for all reports is maintained in accordance with federal regulations.

AUDIT FOLLOW-UP

The Department implemented additional monitoring procedures which will include the reviewer ensuring that supporting documentation is maintained by the contractor. We will review the enhanced procedures during 2014 *Single Audit Report* fieldwork to determine the adequacy of the controls.

STATUS – OPEN

Finding 2013-215 – Amounts reported as expenditures of the Low-Income Home Energy Assistance Program (LIHEAP) included \$18,322 in unallowable costs.

We recommended that the Department strengthen internal controls over the adjustment process and that adjustments to personnel costs be posted only based upon actual activities performed. We further recommended that the Department contact the federal grantor regarding the questioned costs.

AUDIT FOLLOW-UP

Subsequent to the issuance of the 2013 *Single Audit Report*, the Department provided an Employee Certification signed in March 2014 for the payroll adjustment related to wages earned during the months of May through September 2012. In addition, the Department's corrective action indicates that they will obtain an Employee Certification for payroll adjustments over \$25,000. However, support for all payroll adjustments should be prepared timely and maintained to document compliance with the requirements in 2 CFR Part 225 Appendix B related to wages. Testing will be completed during the 2014 *Single Audit Report* fieldwork to ensure compliance with these requirements.

STATUS – OPEN

Finding 2013-216 – Health and safety requirements are not monitored for In-Home Child Care providers.

We recommended that the Department correct the inconsistency between the guidance within the Child Care Program State Plan and Idaho Administrative Procedures Act (IDAPA) rules. We also recommended that the Department implement internal controls to ensure compliance with such regulations.

AUDIT FOLLOW-UP

The applicable IDAPA rules were updated to be consistent with the State plan and current practices of the Department. The new rules went into effect in March 2014.

STATUS – CLOSED

Finding 2013-217 – Client eligibility errors may go undetected and uncorrected due to insufficient internal controls, resulting in improper payments in the Medicaid Cluster and Children's Health Insurance Program (CHIP).

We recommended that the Department implement procedures to ensure all Alert IDs are included in the investigation and resolution of errors identified by the interface between Idaho Benefit Eligibility System (IBES) and Medicaid Management Information System (MMIS). We also recommended that the Department increase monitoring of internal controls to ensure they

are operating effectively and that claims are only processed for eligible clients. We further recommended that the Department contact the federal grantor to resolve the questioned costs.

AUDIT FOLLOW-UP

The Department has indicated that they have reviewed the interface between IBES and MMIS and modified the error reporting to ensure all errors are captured. In addition, staff is required to review and resolve the errors daily. However, we were unable to complete audit procedures to verify the changes. We obtained a listing of alerts that were triggered through June 9, 2014, for fiscal year 2014. To help determine an efficient approach to testing before pulling a larger sample, we selected one alert as an example and requested an audit trail or other sufficient evidence; support has not been provided for the alert. Testing will be completed during the 2014 *Single Audit Report* fieldwork.

STATUS – OPEN

Finding 2013-218 – Children’s Health Insurance Program (CHIP) performance bonus funding of \$785,015 was expended on unallowable costs.

We recommended that the Department strengthen internal controls procedures to prevent noncompliance with federal requirements. We further recommended that the Department contact the federal grantor to resolve the questioned costs.

AUDIT FOLLOW-UP

The Department has stated that verbal communication from the federal grantor indicated that, if it could demonstrate that the funds were not used for matching purposes, the incurred expenditures would be an acceptable use of the funds. As such, the Department continues to disagree with this finding. However, the Department has not provided for our review any written documentation from the federal grantor allowing these expenditures.

STATUS – OPEN

LABOR, DEPARTMENT OF

Finding 2013-219 – Cash draw amounts were not reconciled to federal Unemployment Insurance (UI) benefits expenditures.

We recommended that the Department implement internal controls to ensure federal funding activities are reconciled and that amounts drawn for the UI program are supported by amounts expended.

AUDIT FOLLOW-UP

The Department has implemented new policies and procedures relating to federal cash draws. The Department performs monthly reconciliations for the UI program to help ensure federal funds drawn down do not exceed federal expenditures.

We reviewed the procedures in place and reviewed the May 2014 reconciliation and noted only trivial differences.

Further testing will be performed during the fiscal year 2014 Single Audit to fully determine if the policies and reconciliation procedures are effective.

STATUS – OPEN

Finding 2013-220 – Internal control weaknesses exist in the processes for completing the Employment and Training Administration (ETA) 227 reports on Overpayment Detection and Recovery Activities.

We recommended that the Department design and implement internal controls over the preparation of the ETA 227 reports, including a review of the reports by a staff member separate from the preparer.

AUDIT FOLLOW-UP

The Department has provided more training to the individuals compiling the reports. In addition, the Department now has an individual designated to compile the reports and a separate supervisor designated to review and approve the reports.

Testing will be performed during the fiscal year 2014 Single Audit to more fully determine if the additional training along with the implementation of internal controls is effective.

STATUS – OPEN

Finding 2013-221 – The Schedule of Expenditures of Federal Awards (SEFA) submitted to the Office of the State Controller was understated by \$5.1 million.

We recommended that the Department ensure that accurate SEFA information is reported to the Office of the State Controller. We further recommended that the Department provide training to appropriate staff to complete proper SEFA reporting.

AUDIT FOLLOW-UP

The Department has updated their policies for preparing the SEFA. The instructions now identify that the UI funds paid to other states and UI funds received from other states should not be netted. The instructions will be provided to the appropriate staff for SEFA preparation.

Testing will be performed during the fiscal year 2014 Single Audit to determine if the implementation of the new instructions is effective.

STATUS – OPEN

Finding 2013-222 – Some Benefits Accuracy Measurement (BAM) case files were not available for review.

We recommended that the Department implement internal controls to ensure proper creation and retention of records to comply with federal requirements including BAM Quality Control and audit functions.

AUDIT FOLLOW-UP

The Department now has policies in place that prevent the completion of a BAM case file without the creation of an electronic backup file and a review completed by the BAM supervisor. The new policy was implemented immediately after the completion of the fiscal year 2013 Single Audit.

Testing will be performed during the fiscal year 2014 Single Audit to determine if the implementation of the new procedures is effective.

STATUS – OPEN

VETERANS SERVICES, DIVISION OF

Finding 2013-223 – A payment of \$110,000 made to a not-for-profit for a suicide prevention hotline was not specifically allowable to the Veterans State Nursing Home grant.

We recommended that the Division design and implement internal control procedures to reduce the risk of including unallowable costs in the monthly cost of care calculations.

AUDIT FOLLOW-UP

The Division compiles a monthly report to calculate the cost of care related to the grant. The report is submitted to the Veterans Administration (VA) to receive per diem payments under the grant. The Division uses an Excel spreadsheet to create the monthly report and codes the hotline donation payments to a Program Cost Account (PCA) to specifically identify them as unallowable costs. The spreadsheet includes a line for the PCA and a formula to remove it from the monthly cost of care. The Division has added an additional review of the cost of care calculations, including the amounts and formulas in the spreadsheet, prior to completing the monthly report.

A hotline donation payment reviewed was correctly identified through these procedures and excluded from the cost of care calculation during fiscal year 2014. In addition, 2014 cost of care calculations were tested, and no errors were identified.

STATUS – CLOSED

VOCATIONAL REHABILITATION, DEPARTMENT OF

Finding 2013-224 – Federal financial reports for the Vocational Rehabilitation Grants to States are not supported by the Division's accounting records and include misstatements.

We recommended that the Division develop a process to identify and use accurate and reliable financial records that are reconciled to the statewide accounting system when preparing federal reports. We further recommended that the Division implement adequate internal controls over the reporting process such as reviews by someone knowledgeable about the required reporting information and the underlying data to ensure the report is prepared in accordance with the instructions and requirements.

AUDIT FOLLOW-UP

The Division utilizes statewide accounting and reporting system (STARS) data to complete their SF-425 financial reports. The data is reconciled and reviewed prior to the report being submitted.

Financial information for the RSA-2 is now based on STARS data; however, non-financial client information will still be taken from an internal information system.

Testing will be performed during the fiscal year 2014 Single Audit to more fully determine if these changes are effective.

STATUS – OPEN

Finding 2013-225 – The indirect cost rate for the Vocational Rehabilitation Grants to States was incorrectly applied and controls were ineffective in detecting errors.

We recommended that the Division provide staff with training to ensure adequate knowledge of the compliance requirements in the CFR (2 CFR Part 225). We further recommended that the Division design adequate internal controls to review and approve the calculation of cash draw requests and ensure the proper indirect cost rate is correctly applied to the appropriate base prior to completing cash draws.

AUDIT FOLLOW-UP

The Division has reassigned the duties related to the indirect cost rate application and cash draw calculations. The assigned staff member is knowledgeable and adequately trained to properly complete the tasks. Cash draw calculations are now reviewed and approved prior to being submitted. The Division has also implemented procedures to reconcile data to STARS.

The new process was discussed with the Division staff. We reviewed the Excel spreadsheet used to apply the indirect cost rate and calculate the cash draw amount. This tool and the review and approval process will help ensure the indirect cost rate and cash draw calculations are appropriate.

These changes were implemented part way through the fiscal year. Testing will be performed during completion of the fiscal year 2014 Single Audit to more fully determine if the implementation of these internal control procedures fully addressed the weaknesses identified.

STATUS – OPEN

Finding 2013-226 – The maintenance of effort federal requirement was not met for the Vocational Rehabilitation Grants to States.

We recommended that the Division properly monitor maintenance of effort requirements to ensure compliance.

AUDIT FOLLOW-UP

The Division feels the ability to meet their maintenance of effort is dependent on the appropriations granted from the Legislature. The Division continues to advocate for additional general fund appropriations during the budgeting process. The Division hired new fiscal staff in fiscal year 2013 that is monitoring the compliance and is striving to comply with the federal requirements.

Testing will be performed during the fiscal year 2014 Single Audit to more fully determine if the Division was compliant with maintenance of effort requirements.

STATUS – OPEN